

Premium Income Fund

Tax Statement Clarification – 27 October 2008



Wellington Capital Limited has engaged KPMG as taxation advisers in relation to the Premium Income Fund.

To assist individual investors in completing their 2008 income tax returns, Wellington makes these comments in response to requests from investors to provide further information arising from the 2008 distribution statement. The form of the tax statement has been recommended by the Tax Office and the Investment and Financial Services Association (IFSA) for disclosure by managed funds of tax information to resident individuals for completion of 2008 tax returns.

General information regarding the Premium Income Fund's 2007/2008 distributions

The Premium Income Fund is a managed investment scheme and operates in a unit trust structure. The Premium Income Fund reported a net loss for the year of \$379 million. The cash distribution to unit holders was \$37.1 million and the taxable income attributable to unit holders was \$42.1 million.

As Unitholders have a present entitlement to the income of the Premium Income Fund, the Fund is obliged to distribute all its taxable income for taxation purposes. For the 2007/2008 financial year, the taxable income was in excess of the cash distributed to Unitholders.

Reasons for taxable income calculated to be in excess of accounting income and in excess of cash distributed

During 2007/2008, the Premium Income Fund invested in various structured investments, including but not limited to mortgages, property trusts, direct equity, and other managed funds. As a result, the Premium Income Fund received many different streams of income.

Each source of income has its own income tax outcomes that flow through to Unitholders, for example interest, dividends (franked and unfranked), foreign income, capital gains / losses and other income.

During the year the Premium Income Fund made a significant number of impairment decisions on its assets. These impairments for accounting purposes are expensed through the profit and loss statement, but are not able to be claimed as deductions for income tax purposes, either because they are unrealised or of a capital nature.

There are a number of other timing related income tax adjustments in the fund that has resulted in a variance between accounting and taxable income, items such as but not limited to borrowing costs, accrued expenses and insurance have all contributed to the variance.

As a result of the limited cash distributions paid from the fund during the year, an unusual variance has occurred whereby the taxable income has exceeded the cash distributions paid to unit holders. Unit holders will need to report in their income tax returns the taxable distribution made to them during the year, not just the cash distributed income.

Why don't I have a capital gain in my distribution?

During 2007/2008, the Premium Income Fund sold a number of its non core investments. As a result of these disposals, the Fund has retained carried forward capital losses to be utilised in future periods. Under current legislation these capital losses are unable to be distributed to the Unitholders, but must be retained by the fund for future offset against capital gains.

For further information please contact:

Wellington Capital Limited
as responsible entity of the Premium Income Fund
ACN 114 248 458 AFSL 291 652

Phone: 1300 854 885
Email: investorrelations@newpif.com.au